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TAGS: [ECON](#) [EPET](#) [PGOV](#) [PREL](#) [EINV](#) [IZ](#) [POL](#)
SUBJECT: KRG PM BARZANI TAKES ISSUE WITH GOI OIL MINISTER
SHAHRISTANI, HINTS AT PROGRESS ON HYDROCARBONS LEGISLATION

REF: A. BAGHDAD 00194
[1](#)B. BAGHDAD 04014

Classified By: EMIN Ambassador Marc Wall, reasons 1.4 (b,d)

[1](#)1. (S) Summary: At a 4 February meeting with EMIN Wall, KRG PM Nechervan Barzani expressed his displeasure with GOI Minister of Oil Husayn Al Shahrستاني for his lack of competence, focus and willingness to work on KRG-GOI oil issues and was puzzled with inquiries by Shahrستاني during a recent meeting about KRG-Israeli contacts. Barzani expressed his belief that the drop in world oil prices had introduced a more conciliatory tone to the hydrocarbons debate between the KRG and the GOI, but continued to assert the KRG's desire for an equal say in how Iraq's oil resources will be managed. Barzani also reported progress on the linking the DNO (Norwegian) field to the GOI pipeline, but noted that an agreement still needed to be reached on the division of export revenue. End Summary.

ISRAEL ON THE AGENDA?

[1](#)2. (S) During a February 4 visit to Erbil, EMIN met with KRG PM Nechervan Barzani. The main topic was hydrocarbon issues, and began with reference to the November 24 2008 visit of Iraqi Oil Minister Shahrستاني to Erbil for talks with Barzani (ref B). Barzani said he had expected his talks with the Oil Minister would focus on a possible agreement to allow crude oil export from the KRG region, but was surprised that in the end Shahrستاني devoted most of the talks to other issues. Specifically, Shahrستاني repeatedly inquired on the nature of the KRG's dealings with Israel and the Mossad, leading Barzani to quip that he wanted to ask "are you the Minister of Oil or Intelligence?" (Note: Shahrستاني earlier told us that the main focus of his visit had not been the crude oil export agreement, but had never specified what the other topics had been. He implied, however, that the discussion had covered the range of contentious issues between the central and regional governments. See ref B. End Note)

FORCING THEIR HAND?

[1](#)3. (SBU) Barzani expressed his belief that global oil prices had made the GOI "less arrogant" and more willing to seek a real solution to hydrocarbons legislation. Barzani mentioned that he was happy with the current price of oil, as he believed it was forcing the GOI to seriously focus on an agreement to export KRG oil. As a sign of this new direction, he mentioned that the GOI recently sent a letter to both the Norwegian private oil company DNO and the KRG, expressing the GOI's desire to reach an agreement between the GOI, DNO and the KRG to permit exports from the oil field DNO is developing, but without specifying details. Note: The DNO psc with the KRG was signed prior to adoption of the Iraqi constitution. End Note.

¶4. (S) Barzani then continued his broadside at Shahrستاني, stating that he had no confidence in Shahrستاني's understanding of the oil sector or his willingness to negotiate an agreement that would permit much-needed increased oil exports. As an example of this, Barzani described a previous conversation with Shahrستاني on the DNO-KRG export situation, in which Shahrستاني suggested the KRG pay DNO out of its 17% share of oil revenue, an option not acceptable to Barzani. (Note: Post,s understanding of the DNO-KRG PSC agreement is that it would cost the KRG more it,s 17% share of the export revenue to cover its contractual obligation to DNO.)

¶6. (S) Barzani further noted that "the KRG will not accept Baghdad's overall control of oil" and expressed a desire to QBaghdad's overall control of oil" and expressed a desire to coordinate and remain on equal footing with the national government on how the resources are extracted.

¶7. (S) Per ref B, Deputy Oil Minister Mu'tasam informed us that he had proposed the MoO negotiate directly with the PSC operators to arrive at new agreements that would replace the PSCs with the KRG. Mu'tasam lamented then that there had been no movement on the proposal, although all concerned parties were agreed that the approach could potentially resolve the central government-KRG impasse. During a conversation on February 5, Mu,tasem continued to lament that the political will was lacking on both sides to come to an agreement on a pricing mechanism that would facilitate exports.

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